

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

Chair, Jack Scott

Member, Bob Margett

Member, Joe Simitian

Tuesday, March 20, 2007

1:30 p.m.

Room 113, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
6110	Department of Education	
Issue 1	Microsoft Settlement Agreement – Information Only	Page 2
Issue 2	Statewide Data Systems - K-12 High Speed Network	Page 3
Issue 3	Statewide Data Systems – CALPADS	Page 7
Issue 4	Statewide Data Systems - CALTIDES	Page 10
Issue 5	Statewide Data System – Program Improvement Management System	Page 12
Issue 6	Child Health - School Meals Reimbursement	Page 14
Issue 7	Child Health - California Fresh Start Program	Page 17
Issue 8	Child Health - Physical Education Teacher Incentive Grants	Page 19
Issue 9	Child Health - Early Mental Health Initiative	Page 21
Issues 10	English Learners & Disadvantaged Students – Economic Impact Aid	Page 23
Issue 11	English Learners – LAO Update	Page 25
Issue 12	English Learners – Community Based English Tutoring Program	Page 27
Issue 13	School Facilities – Emergency Repair Program	Page 29
Issue 14	School Facilities - Charter School Facility Grant Program	Page 31

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

ISSUE 1: Microsoft Settlement Agreement – Information Only

DESCRIPTION: In fall of 2006, the Superintendent of Public Instruction announced the availability of more than \$400 million in funding for educational technology for California schools as a result of a settlement agreement between California consumers and Microsoft. The source of these funds for schools is unclaimed settlement funds for California consumers and businesses. The Department of Education will provide an update on the allocation of these settlement funds to schools in California.

BACKGROUND:

Eligible Schools: Public elementary and middle schools where 40 percent or more of the students qualify for free- or reduced-price meals. High schools are eligible if any of their students come from an eligible elementary or middle school.

Types of Funding Available: Funds are allocated in the form of vouchers to schools that can be redeemed for cash with proof of purchases for qualifying products or services. There are two basic types of vouchers:

- General Purpose Vouchers – Fifty percent of the vouchers can be used for a variety of hardware products, (computers, printers, etc.), software products (non-custom) and technology services (training, etc.)
- Specific Category Vouchers – Fifty percent of the vouchers are for specific categories of computer software. Only off-the-shelf products are allowed.

Allocation of Voucher Funds: Voucher amounts for schools are determined based upon October 2005 enrollment counts for each eligible school. The initial allocation of \$250 million provides approximately \$50 per student. This amount will be increased to reflect approximately \$150 million from the second allocation.

Application Timeframe: LEAs were able to start submitting voucher claims on September 25, 2006. The application process for vouchers remains open until June 1, 2008. Vouchers must be redeemed by September 2012.

Requirement for Technology Plans: School districts are required to apply for vouchers on behalf of their eligible schools. All applicant districts must have a current, state-approved technology plan in order to be eligible for funding. State Special Schools, direct funded charter schools, and county offices of education are not required to have a state-approved plan.

COMMENTS: The Microsoft settlement provides substantial resources for technology hardware and software purchases for most schools in the California. While the Legislature has no control over these funds, it is important for the Legislature to be aware of these resources and to understand their effects on technology planning and instructional improvement.

ISSUE 2: Statewide Data Systems -- K-12 High-Speed Network (6110-182-0001)

DESCRIPTION: The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition, the Governor authorizes \$4.6 million in E-Rate and California Teleconnect Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to **\$15.6 million** in 2007-08. The 2006-07 budget provided the same level of funding. However, the Governor does not propose to continue budget control language included in the 2006-07 budget to protect state assets.

BACKGROUND: The “Internet 2” network was first developed as a university network used by the University of California, the California State University, as well as, independent universities in California. The Digital California Project (DCP), funded by the University of California (UC), was created to extend this university network to the K-12 school system. A total of **\$92.6 million** was appropriated to UC between 2000-01 and 2003-04 for this purpose.

Through a contract with the Corporation for Education Network Initiatives in California (CENIC), the Digital California Project at UC extended Internet 2 access to 58 county offices of education and most school districts and schools in the state.

2004-05 Budget: In 2004-05, the Legislature switched funding for the Internet 2 program from UC to K-12 education. As requested by the Governor, the Legislature appropriated \$21 million to the California Department of Education for the K-12 High-Speed Network, previously known as Internet 2.

A number of concerns were raised during budget discussions in 2004-05 about funding for the K-12 High-Speed Network last year. These concerns focused on the following issues: absence of an information technology plan for this statewide project; lack of a governance structure for the network; uncertain utilization of the K-12 network by LEAs; and unknown cost and revenue data essential for determining the appropriate level of state funding.

As a result of these concerns, provisional language was added to the 2004-05 budget bill that requires CDE to contract with a county office of education to implement the K-12 network, thereby replacing CENIC as the lead agency for the network. (CDE selected Imperial County Office of Education through a competitive bid process.) The language also expressed intent that funding for the network in 2005-06 be accompanied by a governance structure that is specified in statute. In addition, budget bill language required two reviews developed in consultation with the Department of Finance and the Legislative Analyst – an *independent financial audit* of the K-20 Internet system administered by CENIC and a *program status report* on the K-12 network prepared by the lead agency.

2005-06 Budget: The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High Speed Network and instead authorized funding at the same level from unused funding previously appropriated for development of the K-12 network. Prior to expenditure of these funds, the Joint Legislative Audit

Committee (JLAC) was required to complete an audit of the K-12 network.

2006-07 Budget: The 2006-07 budget authorized \$15.6 million in expenditures for the K-12 High Speed Network in 2006-07 including \$4.0 million in one-time funds from the Proposition 98 Reversion Account, \$4.6 million from E-Rate and Teleconnect Funds, and \$7.0 million in other excess funds and reserves.

The 2006-07 budget also included Budget Control Section 24.55 to implement recommendations from a January 2006 report by the Bureau of State Audits on the California K-12 High Speed Network. The budget control language establishes standards and reporting requirements relating to the audit for K-12 education and public higher education segments. The Governor vetoed specific language from Control Section 24.55 that required any assets purchased primarily with state funds be transferred to the state if CENIC no longer manages the California Research and Education Network (CalREN).

The LAO has developed the following summary of the provisions of Budget Control Section 24.55

2006-07 Budget Act Control Language

Section 24.55 of the *2006-07 Budget Act*, placed the following requirements on the Corporation for Education Network Initiatives in California (CENIC) and the Imperial County of Education:

- Ensure that any interest earned on state monies held by CENIC accrues to the segment providing the excess monies and is used to operate the California Research and Education Network (CalREN) for that segment.
- Create a service level agreement (SLA) for CalREN and the High Speed Network (HSN).
- Establish fee payment schedules that do not require prepayment.
- Submit a report to the Legislature and the Governor by December 1, 2006, with the following:
 - Information on revenues and expenses over \$100,000 in 2005-06.
 - A financial accounting of all primarily state-funded assets for CalREN and HSN.
 - The SLA for CENIC.
 - A list of all prepayments made in 2005-06 and the first quarter of 2006-07 and an explanation of savings resulting from each.
 - Fees charged by CENIC to all private and out-of-state educational institutes using CalREN.
 - Revised budget for 2006-07 for CalREN and the HSN.

Governor's 2007-08 Budget Proposal:

The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition the Governor authorizes \$4.6 million in E-Rate and California Teleconnet Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to **\$15.6 million** in 2007-08. The 2006-07 budget provided the same level of funding.

The Governor does not propose to continue budget control language included in the 2006-07 budget. The Governor vetoed some of this language intended to protect state assets as recommended by the BSA audits. The Governor argues that this language is not needed due to protections added by Chapter 552. However, the provisions vetoed by the Governor are the same provisions that were avoided by Chapter 552.

LAO Findings & Recommendations: The high speed network serving California's K-12 and higher education systems, is now known as the California Education Network (CEN). The LAO notes that the 2005 BSA audit of CEN found that the network was sound, but lacked important contractual and accountability measures. The LAO further notes that actions taken in recent years have improved the transparency, particularly of the K-12 High Speed Network. As presented below, the LAO recommends continued funding for the K-12 High Speed Network. The LAO also recommends legislation to extend accountability measures enacted for the K-12 High Speed Network to the higher education systems.

- **Provide \$12.6 Million for the High Speed Network (HSN).** Recommend Legislature provide \$12.6 million Proposition 98 for the HSN project. This would include \$10 million in ongoing Proposition 98 funding and \$2.6 million in one-time Proposition 98 funds. The ongoing funds would support a baseline budget. The \$2.6 million in one-time funds would support the first phase of a two-year technology refresh plan. Once completed, the refresh plan would increase network capacity, replace aging equipment, upgrade technology and improve performance monitoring.
- **Enact Legislation to Further Protect State Interests.** Recommend Legislature enact legislation requiring contracts between higher education and the Corporation for Education Network Initiatives in California (CENIC) include the contractual provisions required in Chapter 552 for the K-12 system.
- **Request CENIC Provide Asset and Fee Information As Required in the 2006-07 Budget Act.** Recommend Legislature require CENIC to provide previously requested information, by April 1, 2007, on its assets and fee structure.

COMMENTS: *Staff recommends* that the Subcommittee require CENIC to provide data on assets and fee structure by April 1st, as recommended by the LAO. This information was required by Control Section 24.55 as a part of a report due last December, but according to the LAO was not provided.

Staff recommends that the Subcommittee hold off on the LAO's proposal to provide an additional \$2.6 million in one-time Proposition 98 funds for the first phase of technology refresh plan until after May Revise.

Staff also recommends that the Subcommittee consider the LAO's recommendation to amend statute – or add budget control language – to restore language that was agreed to as a part of the 2006-07 budget to protect state assets if CENIC should cease managing the project. Because this issue involves higher education, the Subcommittee may want to discuss this issue further at a future Subcommittee hearing before taking action after May Revise.

OUTCOME:

ISSUE 3: Statewide Data Systems – California Longitudinal Pupil Achievement System (CALPADS)

DESCRIPTION: The California Department of Education (CDE) will provide an update on the development of CALPADS implementation. The Governor's budget proposes **\$2.7 million** from state and federal sources to support development and implementation of the CALPADS in 2007-08. These funds support state contracts for project management, project oversight, and systems integration. The CDE will also present a proposal to provide approximately **\$32.5 million** in ongoing Proposition 98 funding to provide ongoing incentive funding to support LEA activities to collect, maintain, and submit quality student-level and teacher-level data to CALPADS.

BACKGROUND: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS). Senate Bill 1453 and SB 257 identify five basic goals for the state's longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To improve evaluation of education progress and investments over time;
- To provide LEAs with information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices for pupil data systems and issues.

The CDE submitted a Feasibility Study Report for CALPADS to the Department of Finance on August 20, 2004. In spite of delays spanning more than a year, the Department of Finance approved the FSR in October 2005.

2006-07 Budget:

CALPADS Development: The 2006-07 Budget appropriated a total of \$1.784 million in General Fund and federal funds to the CDE to support the development of CALPADS. These funds supported project management and project oversight contracts. Of this amount about half will be available in 2007-08 to support systems integration costs.

Statewide Student Identifier (SSID) Maintenance: CALPADS will depend on the existence of a well functioning statewide student identifier system. Currently this system is maintained by CSIS. The 2006-07 Budget appropriated a total of \$397,000 (Item 6110-101-0349) to the CSIS program to maintain the statewide SSID locator database and to support LEAs to acquire and maintain their SSIDs, including the resolution of SSID anomalies. The 2006-07 also provided \$828,000 (6110-001-0349) to support LEAs not participating in the CSIS State Reporting program to acquire new SSIDs and maintain their existing SSIDs. LEAs are provided \$0.25 per enrolled student.

Best Practices Cohort: The 2006-07 Budget provided a total of \$29.5 million in one-

time local assistance funding to support the Best Practices Cohort program. This is a voluntary program for which approximately 1,000 LEAs and independently reporting charter schools are eligible. The purpose of this program is to build the capacity of LEAs/independently reporting charter schools who have not participated in the CSIS program to establish the hardware, software, and management processes necessary for a smooth transition to the new California Longitudinal Pupil Achievement Data System (CALPADS). Of this total, \$9.5 million is from one-time Proposition 98 funds, and \$20 million is from the Educational Telecommunications Fund. Expenditures of these funds required development of a plan by CSIS and the CDE that must be approved by the Department of Finance, Office of the Secretary of Education and State Department of Education, in consultation with the Legislative Analyst's Office. The plan was submitted for approval in September 2006, and approved in October 2006.

The 2006-07 budget also provided a total of \$2.33 million in one-time Proposition 98 funds for the CSIS program to administer and implement the Best Practices Cohort program. Of the \$2.33 million, \$1.5 million is to support state level CSIS activities over a three year period (\$500,000 per year in 2006-07, 2007-08, and 2008-09); and \$533,000 for related CSIS equipment (hardware and software) purchases.

Governor's 2007-08 Budget Proposal: The Governor's budget proposes a total of **\$2.7 million** in state and federal funds to CALPADS in 2007-08. These funds include:

Fund	Provision	Dollars	Positions	Description
6110-001-0001	19	\$945,000	1	To support project management, project oversight and systems integration contracts
6110-001-0890	17	\$881,000		To support project management, project oversight and systems integration contracts
6110-001-0890	18	\$781,000		From Statewide Longitudinal Data System Grant for CALPADS to support systems integration.
6110-001-0890	29	\$56,000	1	½ position to support CALPADS (the EDEN position is not related to CALPADS at all, but to the state submitting current data to the feds.)
TOTAL		\$2,663,000	2	

CALPADS Implementation: According to the FSR prepared in April 2005, one-time implementation costs for CALPADS are estimated to total **\$9.5 million** over the implementation period. The Department will update these figures after bids are opened in late April. The target date for implementation of CALPADS is 2009. The CDE will provide a full status report on the CALPADS implementation timetable, including the following prior, current and upcoming events:

- Request for Proposal released September 2006
- Bidder's draft proposals submitted on December 18, 2006
- Confidential discussions with proposing bidders completed January 26, 2007
- Final proposals due March 21, 2007
- Public Cost Opening April 27, 2007
- Update cost figures and submit to DOF for consideration in May Revise
- Special Project Report (SPR) written and submitted to DOF in June; SPR must be approved before contractor begins work
- Selected vendor begins work late summer 2007
- CALPADS statewide implementation 2009

CDE Proposal of LEA Support: The CDE is proposing **\$32.5 million** in ongoing Proposition 98 funding to support LEA activities related to maintaining Statewide Student Identifiers (SSIDs), collecting and reporting student and teacher level data to CALPADS, and using CALPADS and local data for decision making to increase student achievement. This proposal would provide LEA funding at the level of \$5.0 per student.

COMMENTS: *Staff notes* that the development of student data that can produce longitudinal student performance data, including student graduation and dropout data, is a high priority for the Legislature, as well as the Governor and the Superintendent of Public Instruction. Even with limited funding available, it is important that funding for CALPADS remain on track to assure adequate support and to avoid any further delays in implementation.

Staff recommends that the Subcommittee give high priority to the Department of Education's proposal to provide an additional \$32.5 million in ongoing funding to LEAs as an incentive for developing and maintaining high quality data needed for support of CALPADS. The Subcommittee provided \$15 million for this purpose as a part of the 2006-07 budget. These funds were eliminated as a part of final budget negotiations.

Due to the limited availability of discretionary Proposition 98 funds in 2007-08, the Department's proposal can only be funded if additional funds become available at May Revise or if the Subcommittee chooses to redirect funds from other programs proposed for 2007-08.

SUGGESTED QUESTIONS:

1. *To CDE: Is the CALPADS system on track to be fully implemented in 2009?*
2. *To CDE: Can you provide an updated summary of the estimated costs for completing CALPADS implementation in the next few years?*
3. *To CDE: Now that all LEAs have established individual identifiers for their students, is there any chance that CDE/CESIS will be able to develop more accurate dropout data before CALPADS is fully implemented?*

OUTCOME:

ISSUE 4. Statewide Data System – California Longitudinal Teacher Integrated Data Education System (CALTIDES) -- 6110-001-0890

DESCRIPTION: The Governor's budget provides **\$1.4 million** in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides **\$1.2 million** for one limited-term analyst position and other contract expenses to the California Department of Education and **\$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing (CTC) for development of CALTIDES. The Department of Education will provide an update on the development status of the new teacher data system.

BACKGROUND: The 2005-06 budget appropriated **\$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO, and other interested parties in selecting a vendor.

The FSR was submitted by the Department of Education and approved by the Department of Finance in spring 2006. As required by language in the 2005-06 budget, the feasibility study report was required to:

- (1) inventory the teacher data elements currently collected by state agencies and county offices of education;
- (2) identify existing redundancies and inefficiencies;
- (3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
- (4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
- (5) estimate the additional one-time and ongoing costs associated with the new system.

The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for CALTIDES development which included \$686,000 for CDE to support project management, Request for Proposal (RFP), and project oversight contracts and \$252,000 for CTC to support 2.5 positions.

Governor's 2007-08 Budget Proposal: The Governor's budget provides **\$1.4 million** in one-time federal Title II funds to continue development of the CALTIDES in 2007-08. Of this total, the Governor provides **\$1.2 million** for one limited-term analyst position, contracts for project management, project oversight and other expenses to CDE and **\$248,000** for 2.5 positions and other expenses to CTC and for development of CALTIDES.

Related Legislation: Chapter 840; Statutes of 2006 (SB 1614/Simitian) requires the Department of Education, in collaboration with the Commission on Teacher Credentialing, to contract for the development of a teacher data system – the California Longitudinal Teacher Integrated Data Education System. The purpose of the system would be to evaluate the effectiveness of professional development and teacher preparation programs and improve monitoring of teacher assignments. The data system would utilize existing teacher databases and requires the Commission to establish “non-personally identifiable” teacher identification numbers for all public school teachers.

Implementation Status: The FSR for CALTIDES was approved by the Department of Finance in March 2006. The RFP is under development and will be completed in late summer 2007. The vendor will be selected in summer 2008. Development of the CALTIDES system will be completed in 2009 and system implementation will commence in 2010.

COMMENTS: The Subcommittee may want to ask CDE the following questions about the feasibility study for the teacher data system released in late March:

- 1. What are the total costs for development of the teacher data system?*
- 2. What are the ongoing costs associated with such a system once developed?*
- 3. What is the timeframe for full implementation of the teacher data system, i.e. what is the earliest the system could be implemented?*

ISSUE 5: Statewide Data Systems – Statewide Program Improvement Management System -- 6110-485

DESCRIPTION: The Governor's budget provides **\$1.0 million** in one-time funds to the California Department of Education for both the development of a statewide, Internet-based information management system and for training on use of the system. The new system would provide a data management tool for schools that are subject -- or likely to be subject -- to state or federal intervention for failing to make academic progress. The Governor proposes to use one-time funds from the Proposition 98 Reversion Account for this new statewide program. While not proposed, there would be ongoing costs of approximately **\$700,000** annually for maintenance of this new statewide system.

BACKGROUND: The Governor's budget provides **\$1.0 million** to the Department of Education for a county office of education to contract with an outside agency to develop, implement, and provide training in the use of an Internet-based information management system statewide. The system would provide a comprehensive, unified intervention program to improve the academic achievement of schools that are, or are likely to become, subject to state or federal intervention. Criteria for selection of the county office of education would be developed by the State Department of Education, in consultation with the Office of the Secretary of Education and the Department of Finance, and would be subject to approval by the State Board of Education. The project would be competitively bid to LEAs.

The Governor's budget provides \$1.0 million in one-time funds from the Proposition 98 Reversion Account for development and implementation of this new statewide system, including statewide training on the use of the new system. The Governor's budget proposal does not include detail on the ongoing costs of maintaining this statewide system.

LAO ANALYSIS: The LAO does not have specific problems with the Governor's proposed statewide program improvement management system, but recognizes that the state has other education technology priorities.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that after May Revise the Subcommittee reject this proposal for a new statewide program improvement management system and redirect the **\$1.0 million** in one-time funds from the Proposition 98 Reversion Account to meeting other Proposition 98 program priorities and assuring funding for statewide student and teacher information systems currently under development in 2007-08.

If the Subcommittee supports this concept, *staff recommends* that this proposal be subject to the standard review process for statewide information technology projects before any funding is provided.

Questions:

1. *The San Diego County Office of Education has developed a program management system that the Governor's proposal is apparently modeled after, so why does the*

- state need to spend an additional \$1 million for the development of a new statewide system?*
- 2. The ongoing maintenance costs of the Governor's new program management system, under the San Diego County Office model, would total nearly \$700,000 annually. What are the Administration's estimates for ongoing costs of the new system and how will these costs be funded?*
 - 3. As a new statewide information technology system, why isn't this system subject to the standard approval process by the Department of Finance, Office of Technology Review, Oversight and Security, which is required for statewide technology projects?*
 - 4. How would the new proposal align state level intervention activities through the California Department of Education with the features of the Governor's new statewide information management system?*

OUTCOME:

ISSUE 6: Child Health - School Meal Reimbursements -6110-203-0001

DESCRIPTION: The Governor proposes to consider an unspecified increase in the reimbursement rate for free- and reduced-price meals in 2007-08. The Governor has not set-aside any funding in the 2007-08 budget for this purpose. The Governor proposes that any increases in the state meals rate in 2007-08 be tied through legislation to elimination of fried foods and progress toward elimination of foods with trans fats served at schools. The Governor is sponsoring legislation – AB 1503/Fuller -- to accomplish these changes.

BACKGROUND: The state meal program supplements the federal funds school districts receive for free- and reduced-price meals, including school breakfasts and lunches. According to the California Department of Education, the federal funding provides approximately \$2.40 per meal and state funds provide approximately 15.6 cents per meal.

Last year, the CDE recommended increasing the state meal program reimbursement for free- and reduced-price meals from approximately 14 cents to 21 cents per meal as a means of improving the quality of school meals. School meal funds provide reimbursements to school districts for food costs, supplies, equipment, and labor associated with providing school meals.

According to CDE, the state meal rate for free- and reduced-priced meals has not received an overall funding increase for the last fifteen years. However, state school meal funds do receive annual, statutory COLA adjustments, as well as growth.

2006-07 Budget: The Governor proposed to increase the state meal reimbursement rates for free- and reduced-price meals by seven cents -- from 14 cents to 21 cents – as a part of his May Revise proposals in 2006-07. The Governor included \$37.8 million as a part of his proposal, which tied funding to improvements in the quality of school meals. The Legislature approved this funding increase in the final budget bill, which tied funds to passage of implementing legislation. However, the Governor subsequently vetoed the \$37.8 million in the 2006-07 budget bill because funds were not linked “to legislation that would require schools to improve the nutritional quality of school meals served to California students.” The Governor set aside the vetoed funds for appropriation in subsequent legislation.

The Governor did not veto budget trailer bill language in SB 1102 (Ch. 79; Statutes of 2006) that increased the meal rate to 21 cents in 2006-07, although the Governor included a statement about deletion and set-aside of the \$37.8 million in the veto section of that bill.

The Governor also vetoed subsequent legislation to appropriate the \$37.8 million for 2006-07. SB 1674 (Murray) would have appropriated \$37.8 million for meal rate increases, which would have required schools to follow U.S. Department of Agriculture nutritional guidelines and prohibited schools from selling or serving any food item that needed to be deep fried in final preparation of being sold or served to students.

Governor's 2007-08 Budget Proposal: The Governor's 2007-08 budget proposal deletes the \$37.8 million in 2006-07 funds set-aside for increasing reimbursement rates for free- and reduced-priced meals. The Governor supports consideration of increase in the state meal reimbursement rate, along with legislation to eliminate unhealthy fried foods and unhealthy fats from school meals. However, the Governor has not set aside any funding in the 2007-08 budget for this purpose.

The Governor's budget does provides full growth and COLA for the school meals programs in 2007-08. Specifically, the budget includes \$1.0 million for a projected increase in the number of meals served and \$3.8 million for a 4.04 percent COLA.

The Administration is sponsoring legislation – **AB 1503 (Fuller)** – that would prohibit schools from selling or serving any food item that was fried during development, processing, or preparation. The bill would also require schools to begin the process of eliminating foods sold or served to students that contain unnatural or manufactured trans fats.

The bill does not include an appropriation for school meals reimbursement increases. In contrast, the bill would set the reimbursement rate commencing with the 2006-07 fiscal year at 15.6 cents, rather than at 21 cents, as established by SB 1102. The bill would also establish the rate at 21 cents per meal for districts that meet the more stringent nutrition standards proposed – no fried foods and commence process of eliminating foods with trans-fats. In addition, the bill would also limit annual COLAs to funding provided in the annual budget act.

CDE Implementing Increased Meal Reimbursement Rates in 2006-07: Although the Governor vetoed funding for the school meal increase in the 2006-07, CDE began providing meal reimbursements at 21 cents in July 2006, after SB 1102 was signed into law. CDE believes this statute directed the department to increase the reimbursement rate to 21 cents. Without additional funding in 2006-07, CDE will run a deficiency for this program in 2006-07. CDE reports it has advised local education agencies that funding for school meal increases was not finally approved in 2006-07.

Cost of Increasing Meal Reimbursements in 2007-08: The cost of increasing the reimbursement rate for free- and reduced priced meals to 21 cents was estimated at \$37.8 million in 2006-07. CDE has re-estimated the cost of these increases at \$27.0 million in 2006-07 and \$28.0 million in 2007-08. This is more than \$10.0 million less than what was originally estimated.

The \$37.8 million need was based on an increase from \$0.1413 (2005-06 rate) to \$0.21. The 2006-07 appropriation was sufficient to increase the rate from \$0.1413 to \$0.1563 when projecting the number of meals that would be reimbursed for the year. The increase in the appropriation was due to COLA and growth. Since the difference between the "fundable" rate (\$0.1563) and the statutory rate (\$0.21) decreased, the need to fill the "gap" decreased to \$28 million for the estimated 599 million free- and reduced-price meals served annually by California schools.

The CDE proposes that this \$10.0 million in savings be applied to increases in meal

reimbursements for paid school meals. The department argues that new, rigorous state nutrition standards pursuant to SB 12 (Ch. 235/2005) and SB 965 (Ch. 237/2005) and meal quality improvements being proposed by the Governor apply to all school meals and result in additional costs to schools.

COMMENTS: According to the Department of Finance, if funds become available at May Revise, they will consider an increase in school meals reimbursements along with other priorities. Fortunately, the costs of increasing free- and reduced-price meals to 21 cents is now estimated to cost \$26.0 million in 2006-07 and \$27.0 million in 2007-08 – a \$10 million drop in annual costs, as previously estimated.

OUTCOME:

ISSUE 7: Child Health -- California Fresh Start Program -- 6110-486

DESCRIPTION: The Governor proposes to reappropriate approximately **\$4.0 million** in unexpended, prior-year funds for the California Fresh Start Pilot Program to continue the program in 2007-08. This program provides additional funding for school breakfast meals to increase servings of fruits and vegetables for K-12 students.

BACKGROUND: The 2005-06 budget provided **\$18.2 million** in one-time funds for the California Fresh Start Pilot Program established by Chapter 236, Statutes of 2005 (SB 281/Maldonado). This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school breakfast meals in order to include one or two servings of fruits and/or vegetables. If schools already provide two servings at breakfast, then funds can be used to purchase fruit and/or vegetable servings for other school meals or after-school snacks.

Nutritious fruits or vegetables are defined as including fresh and *canned* fruits and vegetables, but cannot include juice or deep-fried varieties.

Funding is available for schools in school districts and charter schools, as well as for the State Special Schools. Funding is based on the number of school breakfast meals served by schools. Ninety percent of program funds must be spent on direct purchase of fruits and vegetables; ten percent is set-aside for program overhead.

Governor’s 2007-08 Proposal: The Governor proposes to reappropriate the unexpended, prior year balances from the Fresh Start Pilot Program to continue the pilot program in 2007-08. The Department of Education estimates that these balances will total approximately \$3.0 million in 2007-08.

The original \$18.2 million in funding provided for the Fresh Start Pilot Program in 2005-06 assumed full participation of 1,100 districts and charter schools that together serve approximately 180 million breakfast meals annually. Due to delays associated with the approval of emergency regulations for this new pilot program, only \$3.0 million was expended for the program in 2005-06.

The 2006-07 reappropriated approximately \$15.0 million in unexpended funds for the Fresh Start Pilot Program in 2006-07. The Department of Education estimates that approximately \$11.0 million of these funds will be expended by the end of the fiscal year, leaving approximately \$4.0 million in unexpended balances available from the original appropriation.

Program Evaluation: Of the \$18.2 million provided in 2005-06, \$300,000 was set-aside for an independent evaluation of the pilot program. The evaluation is being conducted by the Center for Weight and Health at U.C. Berkeley. The final evaluation is not due until September 2007; however preliminary findings for the pilot evaluation were released on March 9, 2007. These findings indicate that the program has increased the offerings of fruits and vegetables by 264 percent. It is not clear from the study whether fruit and vegetable consumption has also increased.

COMMENTS: Staff recommends deferring action on the Fresh Start Program until after the release of May Revision to align it with other nutrition related items at that time.

Based upon the preliminary results of the pilot evaluation, *staff does not recommend* continuing a separate nutrition program intended to increase servings of fruits and vegetables. Instead, *staff recommends* that the Subcommittee consider using the approximately \$4.0 million in unexpended, prior year funds from the pilot program toward funding the school meal increase in 2007-08. This issue was discussed in the previous agenda item. Increased meal reimbursements would give schools extra funding for increased servings of fruits and vegetables and give schools the flexibility to make other changes needed to improve the quality of school meals.

ISSUE 8: Child Health -- Physical Education Teacher Incentive Grants for K-8 Schools --6110-260-0001

DESCRIPTION: K-8 Physical Education Block Grant. The Governor provides **\$41.6 million** in Physical Education Teacher Incentive Grants to K-8 school districts and charter schools to support the hiring of additional credentialed physical education teachers. Grantees are randomly selected and equitably distributed based upon school type, size and geographic location. This new ongoing program was established in the 2006-07 budget. The Department of Education recommends adding budget bill language to establish a grant period of three years.

BACKGROUND:

Governor's 2007-08 Budget Proposal: The 2006-07 budget provided \$40 million for Physical Education Teacher Incentive Grants, as originally proposed by the Governor. Established as an ongoing program, the Governor proposes \$41.6 million in 2007-08 to continue funding for incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$36,414 per school site, which would be selected randomly with considerations for school type, size, and location.

Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses. High schools are not eligible for these teacher incentive grants.

In order to be eligible for grants, schools must be providing instructional minutes for physical education required by statute. If not, schools must develop a plan to meeting these statutory requirements and correct the deficiency the following school year.

One Time Funds for Physical Education in 2006-07. The 2006-07 budget also provided \$500 million Arts, Music and Physical Education Block Grants. These one-time block grants are available to school districts, county offices of education and charter schools for purchase of arts, music and physical education supplies and equipment. Funding is being allocated on the basis of student average daily attendance (ADA) with minimum school site grants of \$2,500.

LAO Recommendation: The LAO made a number of comments about the Governor's Physical Education Teacher Incentive Grants last year. Some of these comments still have relevance. Specifically, the LAO noted that the ongoing grant program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation. The LAO also noted that the Governor's physical education proposals are not well integrated with existing after-school programs, which emphasize physical activity and recreation. Lastly, the Governor's proposal presumed that there is a shortage of qualified physical education teachers. However, according to the LAO, there is no evidence of such a shortage.

COMMENTS:

Teacher Incentive Block Grant: The length of Physical Education Teacher Incentive Grants to schools is not specified in the budget. The Department of Education recommends establishing a three year grant period. *Staff* supports this recommendation, with language that would limit new grants to schools that have not previously participated in the program. This would give the department authority to establish grant cycles and also allow grants to reach more than only 1,000 of the state's 6,700 elementary and middle schools.

Arts, Music and Physical Education Block Grants: While a one-time program, there is concern that budget trailer bill language establishing the Arts, Music and Physical Education Block Grant program in 2006-07 should be changed to specify funding for "physical education" rather than "physical fitness". The Department of Finance and the Department of Education support this clarifying change to AB 1131 (Ch. 371; 2006). *Staff supports* this clarifying change.

OUTCOME:

ISSUE 9: Child Health – Early Mental Health Initiative (4400-102-0001)

DESCRIPTION: The Governor proposes to augment funding for the Early Mental Health Initiative (EMHI) program, as administered by the Department of Mental Health, by \$5 million in 2007-08. This would bring total funding for the EMHI program to \$15 million in 2007-08 in order to fund a new cycle of EMHI grants. This program provides three-year mental health grants to school sites for early identification and intervention services for students in grades K-3. While administered by the Department of Mental Health, the EMHI program is funded with Proposition 98 funds.

BACKGROUND: AB 1650 (Hansen) Chapter 757, Statutes of 1991, authorized the School-Based Early Mental Health Intervention and Prevention Services for Children Act, known as the Early Mental Health Initiative (EMHI). EMHI allows the DMH to award matching grants to local education agencies (LEAs) defined as school districts, county offices of education, or state special schools to implement, expand, or modify early mental health intervention and prevention programs.

EMHI grants are provided for one, three-year cycle. EMHI programs must be based at publicly-funded elementary schools and provide services to students in kindergarten through third grade (K-3) experiencing mild to moderate school adjustment difficulties. Students participating in an EMHI-funded program are typically assigned to a trained and supervised child aide. The child aide provides program services to the student once a week during regular school days for 30 to 40 minutes for approximately 12 to 15 weeks in an activity room.

The goals of the EMHI program and subsequent legislation are to enhance the social and emotional development of young students, increase the likelihood that students experiencing mild to moderate school adjustment difficulties will succeed in school, increase their personal competencies related to life success, and minimize the need for more intensive and costly services, as they grow older.

By allocating matching fiscal support for the first three years of the LEA's early mental health intervention and prevention program, EMHI provides an opportunity for the LEAs working with cooperating mental health entities, such as local mental health programs or private nonprofit agencies, to implement school-based programs which enhance the school adjustment, mental health, and social/emotional development of students.

Program Evaluation: The EMHI program has been independently evaluated using pre- and post-test data for students. Findings indicate that EMHI recipients make significant improvements in social behaviors and school adjustments as evaluated by both teachers and school-based mental health professionals.

Governor's Budget Proposal. The Governor proposes to increase funding for the EMHI program to \$15 million in 2007-08, an increase of \$5 million. Since grants are allocated on a three year cycle, the additional of \$5 million in funding would allow the EMHI program to return to a consistent cycle where every year one-third of the programs

drop out of the funding cycle and are replaced by a new cycle of programs. The additional \$5 million will provide funding for more than 50 grants serving approximately 5,000 K-3 students on 150 school sites.

LAO ANALYSIS:

COMMENTS: This item is presented as information only. Funding for the EMHI program is included in the budget for the Department of Mental Health. Senate Budget and Fiscal Review Subcommittee #3 approved the Governor's \$5 million augmentation proposal for EMHI on March 12, 2007.

ISSUE 10: English Learners & Economically Disadvantaged Students -- Economic Impact Aid Program -- 6110-128-0001

DESCRIPTION: The Governor's budget proposes \$1.012 billion in funding for the Economic Impact Aid (EIA) program in 2007-08, which continues 2006-07 levels of funding adjusted by a COLA. The 2006-07 budget provided a \$350 million augmentation for EIA – a 60 percent increase -- to alter and expand funding for the state program. EIA provides state funding to school districts to assist economically disadvantaged students and students who are English learners. The Department of Education will provide an update on implementation of new funding for EIA in 2006-07. In addition, the Department recommends shifting EIA funds for charter schools into the charter school categorical block grant.

BACKGROUND: Economic Impact Aid (EIA) is the state's major compensatory education program intended to address the educational needs of economically disadvantaged and English learner students. The federal compensatory education program is known as the Title I Basic Grant program.

The EIA formula is based upon counts for both poor and English learner students. Districts may use funds for a variety of purposes, including: assistance for low-performing students; supplemental instruction services to English learner students; training for teachers of English learner students; and supplementary materials. According to the LAO, districts report using most EIA funds for English learners.

The 2006-07 budget augmented EIA by **\$350 million**, which brings total funding to \$973.4 million and reflects a 60 percent increase in funding for the program. AB 1802 (Ch. 79/2006) – the budget trailer bill – changes, updates, and simplifies the formula for distributing funds through the Economic Impact Aid program. Specifically, the new formula:

- Changes the measurement of economically disadvantaged from CalWorks participant counts to census-based counts used for the federal Title I program.
- Calculates per pupil funding rates by dividing a district's total EIA funding by its Title I and English learner student data counts and holds districts harmless from any loss of per pupil funding in the future.
- Establishes equal funding weights for economically disadvantaged student and English learner student counts.
- Provides a concentration factor for districts with over 50 percent EIA eligible students.
- Provides a funding adjustment to each district calculated on the basis of \$600 minus its per pupil funding amount.

Governor's 2007-08: The Governor's 2007-08 budget proposes to continue current funding levels funding for EIA, with adjustments by a COLA, which brings the program

to **\$1.012 billion** 2007-08. The Governor proposes zero growth for EIA, thereby holding EIA harmless from negative growth adjustments in 2007-08.

EIA Funding for Issue for Charter Schools: According to the Department of Education the portion of the 2006-07 augmentation for EIA (\$350 million) intended for charter schools is currently part of the main EIA item, instead of the charter school item, which is where the "base" EIA funding for charter schools is located. There is language allowing transfer of funds, as appropriate, to the charter school item. The EIA allocations for charter schools and the EIA allocations for other schools are interdependent, and cannot be calculated until charter school data are collected as part of the first principal apportionment (P-1) process in February.

In future years, the Department of Education suggests it would be more effective if the EIA calculations for charter schools and for other schools were on separate tracks. This would involve transferring funds from the EIA item to the charter item--currently estimated to be around \$20 million, and developing separate estimates for growth in EIA pupil counts. The department is currently working on developing these figures. This change would required a straightforward change to budget bill language and conforming changes in statute.

COMMENTS: Poor students, and students who are English learners, face additional educational challenges that are reflected in low performance on state assessments, including CAHSEE, and other educational performance measures such as student graduation. New studies released last week that examine the adequacy of school funding in improving student outcomes, confirm the strong challenges of poverty for California students. Yet, until 2006-07, funding for the EIA formula had been relatively flat since it was created more than 25 years ago.

In contrast to more than \$2.0 billion in additional funding the state has provided for low-performing schools, EIA expansion provides funding for *all* economically disadvantaged students and *all* English learners, whatever school they attend

RECOMMENDATIONS: *Staff recommends* that the Subcommittee direct the Department of Education -- in consultation with the Department of Finance and the Legislative Analyst's Office -- to develop language to improve the process for allocation of EIA funds for charter schools. This language can then be considered by the Subcommittee at a future hearing.

OUTCOME:

ISSUE 11: English Learners – LAO Update

DESCRIPTION: The LAO has identified a significant achievement gap between English learner (EL) students and their English speaking counterparts. The LAO will present an overview of EL students in California and summarize their educational performance. The LAO will also discuss education funding for EL students and make recommendations for making funding more strategic. In addition, the LAO will present a number of findings and recommendations about instructional approaches, instructional materials, teacher quality and assessment and accountability for EL students in California.

Overview of Funding for English Learner Students. According to the LAO, the Governor’s budget provides approximately \$68.6 billion for K-12 education from all sources. Only \$1.3 billion of these funds are targeted specifically to EL students or EL instruction. Of the \$1.3 billion, \$1.2 billion is state funding and \$160 million in federal funding. The LAO identifies state and federal funding targeted to EL students in 2007-08 in the table below.

Program	2007-08 (Proposed)	Description
Discretionary Funds		
Economic Impact Aid	\$1,012.7	Funds districts to provide supplementary services to EL and economically disadvantaged students.
Title III Limited-English Proficient	158.6 ^a	Funds districts to provide supplementary services to EL students.
English Language Acquisition Program	63.4	Funds districts to provide supplementary services to EL students in grades 4-8.
Professional Development		
Mathematics and Reading Professional Development Program—EL component	\$25.0	Funds districts to provide teachers of EL students with professional development in reading and mathematics.
Bilingual Teacher Training Program	2.1	Funds county offices of education to assist K-12 teachers in attaining the training and authorizations necessary to teach EL students.
Assessment/Accountability		
CELDT ^b	\$9.7	Funds state-level contract and administration costs.
	11.9 ^a	Also provides \$5 per EL to assist districts with local administration.
Parent Outreach		
Community-Based English Tutoring program	\$50.0	Funds schools to provide free or subsidized English language instructions to parents or other adult members of the community who pledge to tutor EL students.
Clearinghouse for Multi-Lingual Documents (CMD)	0.3 ^a	Funds the California Department of Education (CDE) to develop an electronic clearinghouse for districts to access and share translated documents.
Totals	\$1,333.7	

The LAO identifies several one-time programs targeted to EL students in 2006-07, which are listed in the table below.

One-Time Funds	2006-07 Budget	
EL instructional materials	\$30.0	Funds districts to purchase materials for EL students to supplement the core instructional program.
Best practices pilot project	20.0	Provides three-year competitive grants to schools to support or expand successful programs for EL students. Corresponding evaluation (unfunded) is intended to identify best practices for the state
Document translation	0.5 ^a	Funds CDE to translate commonly used documents into multiple languages and post them on its CMD Web site.
^a Federal funds		
^b California English Language Development Test		

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends that the Legislature take the following actions as a part of the 2007-08 budget:

- **Adopt a More Strategic Approach to Funding EL Students.** Recommend Legislature determine an explicit “weight” at which EL students should be funded.
- **Fund Best Practices Study.** Recommend Legislature provide between \$500,000 and \$800,000 in a one-time monies for an evaluation of the recently established best practices pilot program. Recommend evaluation focus on identifying effective instructional approaches, instructional materials, and professional development programs designed to enhance EL student achievement.
- **Fund Teacher Preparation Program Study.** Recommend Legislature provide between \$250,000 and \$500,000 in one-time monies to evaluate the effectiveness of teacher preparation programs at improving EL student achievement.
- **Modify State Assessments to Measure Student Progress.** Recommend Legislature require the California Department of Education to contract for a report on the feasibility of vertically scaling the state’s assessment system and report back by April 1, 2008.

OUTCOME:

ISSUE 12 English Learners – Community- Based English Tutoring Program -- 6110-227-0001

DESCRIPTION: The Governor proposes **\$50 million** for the Community-Based English Tutoring (CBET) program authorized by Chapter 632, Statutes of 2006 (SB 368/Escutia). This program would provide English language instruction to adults who would be expected to provide tutoring to K-12 students. The Governor’s proposal essentially extends funding for a similar program established by Proposition 227 that was funded at \$50 million a year through 2006-07.

BACKGROUND: As established by Proposition 227 in 1998, the Community-Based English Tutoring (CBET) Program requires local educational agencies (LEAs) to provide free or subsidized programs of adult English language instruction to parents or other members of the community who pledge to provide personal English language tutoring to English learners. Eligible LEAs include any school district, county office of education, or direct-funded charter school that enrolled one or more English learners in the previous school year.

Funding for the program has been allocated based upon the number of English learners enrolled in each of the participating LEAs. These funds may be used for direct program services, community notification, transportation, and background safety checks required of the tutors who volunteer in public schools settings.

Recent Legislation to Extend CBET. Chapter 632, Statutes of 2006 (SB 368/Escutia) continues the community-based adult English language instruction and tutoring program created by Proposition 227, with some modifications intended to improve the effectiveness of the program. Chapter 632 makes funding for the CBET program subject to an annual appropriation in the Budget Act and requires school districts, as a condition of funding, to provide free or subsidized programs of adult English language instruction to parents and other community members who pledge to provide personal English language tutoring to K-12 English learners.

LAO ANALYSIS: According to the LAO, the Legislature may decide to either continue the CBET program in 2007-08 or redirect the funding for another education purposes. Notably, the LAO reports that a recent evaluation of the CBET program found that while the program was popular, there was no evidence that the program had improved the achievement of English learners.

The LAO raises several other issues, including:

- **Lack of clarity regarding CBET program’s primary goal leads to uneven implementation.** The goals of the CBET, as defined in statute, are to “encourage family members and others to provide personal English language tutoring [to English learner children], and support these efforts by raising the general level of English language knowledge in the community.” The recent CBET evaluation found uneven implementation of the program based upon differing interpretations of these goals. Some districts focused supporting K-12

English learners, whereas other districts focused more on adult education or English as a Second Language (ESL).

- **If CBET program continues, improving EL student achievement should be the primary goal.** The LAO notes that SB 368 made major changes to the accountability requirements for CBET by requiring districts to adopt plans defining their program objectives and measuring their program results. If the Legislature decides to continue funding for CBET, the LAO suggests changing state law to emphasize improvements for K-12 English learners.
- **Legislature may want to consider other uses for CBET program funds.** Given the state's limited resources and the considerable needs of K-12 English learners, the LAO notes that the Legislature may want to consider other ways to effectively use \$50 million for the benefit of English learners.

COMMENTS: As indicated by the LAO, the Legislature is not required to continue funding for the CBET program beyond 2006-07. SB 638 makes funding subject to appropriation in the annual budget. Given limited discretionary funding available in 2007-08, *staff recommends* that after May Revise the Subcommittee consider whether \$50 million for the Community-Based English Tutoring program represents the best use of funds for English learners for improving the achievement of English learners. Given the importance of poverty in the findings of recent education adequacy studies, it might be more effective to continue expansion of the Economic Impact Aid program for English learners and economically disadvantaged students as a means of reducing the achievement gap for English learners. *Staff notes* that the Legislature appropriated \$20 million in 2006-07 for a multi-year project to identify best practices for improving outcomes for English learners that will guide budget and policy decisions in the future.

OUTCOME:

ISSUE 13: School Facilities – Emergency Repair Program (6110-485)

DESCRIPTION: The Governor proposes **\$100 million** for the school facilities Emergency Repair Program (ERP) in 2007-08 pursuant to the *Williams v. California* lawsuit settlement. An additional **\$330 million** was appropriated for this program in 2004-05 and 2005-06 appropriations. To date, only **\$16.5 million** of these prior year funds have been expended, because very few districts have applied for funding. Funding allocations are expected to increase in 2007-08 as a result of Chapter 704/Statutes of 2006, which authorizes a grant-based ERP, rather than a reimbursement-based program.

BACKGROUND: Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the ERP. This level of funding must continue in the budget every year until the state has provided a total of \$800 million for the program.

The ERP is administered by the State Allocation Board. Funds must be used for emergency repairs in low-performing schools, specifically schools in the lowest three deciles of the Academic Performance Index (API). Chapter 899 defines emergency repairs as repairs needed to mitigate conditions that pose a threat to the health and safety of pupils or staff.

Chapter 899 also provided \$25 million in the 2003-04 budget for the School Facilities Needs Assessment Program, which enabled school districts to assess the facility needs for their decile 1-3 schools. These needs assessments were completed by school districts, on behalf of their eligible schools, in December 2005. (Only one school district – Compton Unified – did not complete a needs assessment.)

Funding History: The 2005-06 budget provided **\$196 million** from the Proposition 98 Reversion Account for the first year of the ERP program per the *Williams* settlement agreement; the 2006-07 budget provides an additional **\$137 million** from the Reversion Account for the program. (According to the State Allocation Board, the fund balance for the Emergency Repair Account as of February 28, 2007 was \$320 million.)

(In millions)	2005-06	2006-07	Subtotal	2007-08 Proposed/ Estimated	Total
Appropriations	\$196.0	\$137.0	\$333.0	\$100.0	\$433.0
Expenditures	\$2.6	\$13.9	\$16.5	\$25.0	\$41.5

The Governor proposes to provide an additional **\$100 million** in funds from the Proposition 98 Reversion Account for ERP in 2007-08, pursuant to the requirements of the *Williams* settlement agreement. The Administration estimates the ERP will expend \$25.0 million in 2006-07 and 2007-08.

Low Program Participation: Last year, the LAO reported on the very low expenditures for the ERP. According to informal district reports considered by the LAO, low participation for ERP does not reflect a lack of emergency facility needs, but other problems. The LAO identified a number of reasons behind the lack of applications including fear that projects will not be approved; cash flow concerns; workload needed to prepare applications; and confusion about how the program operates and how projects qualify for funding.

As a result, the LAO recommended a number of changes to the ERP. Specifically, the LAO recommended statutory changes to allow the ERP to provide direct grants to districts based upon average daily attendance (ADA) of their decile 1-3 schools -- rather than reimbursements -- to fund projects identified by their facility needs assessments.

Chapter 704/Statutes of 2006 enacted changes to the program. Districts can now apply for funding for specific projects before undertaking the actual repair work. However, the new grant-based program has not been implemented to date, and will not be in effect until the beginning of 2007-08. According to the State Allocation Board (SAB), the grant-based program will make it much easier for schools to access funding for emergency repairs, as schools will not be required to pre-pay for these projects. While the SAB estimates that the volume of applications and the level of funding requested will increase substantially, they are unable to make expenditure estimates at this time.

COMMENTS:

There is significant, excess funding for the Emergency Repair Program, as presently structured, in the current year. According to the State Allocation Board, the fund balance for the Emergency Repair Account is currently \$320 million. The Governor's proposal will make another \$100 million available, bringing total funding to \$420 million. The Governor's proposal conforms with the requirements of the *Williams* settlement agreement.

It is hoped that changes in the program enacted by Chapter 704 will increase utilization of funds in 2007-08, once the new law becomes fully operational at the end of this fiscal year. At this time there are not solid estimates for what funding will actually be needed in 2007-08. In addition, it is now known if it is feasible for the SAB to allocate \$420 million in funds in one year.

The Emergency Repair Program makes funds available for schools in the lowest three deciles of the Academic Performance Index (API). In order to be eligible, decile 1-3 schools must have valid API scores. This definition excludes most of the state's 1,000 alternative schools, serving between 225,000 to 300,000 students per year, from eligibility for these program funds.

OUTCOME:

ISSUE 14: School Facilities – Charter School Facility Grant Program – 6110-485

DESCRIPTION: The Governor proposes **\$43.9 million** in one-time funds from the Proposition 98 Reversion Account for the Charter Schools Facility Grant program established by SB 740 (Chapter 892, Statutes of 2001). Of this total, \$20 million is proposed to cover 2006-07 costs and \$23.9 million is proposed as an advance for 2007-08 costs.

BACKGROUND: The Charter School Facilities Grant Program was created in 2001 by SB 740 (O’Connell) to provide funding to charter schools in low-income areas to provide partial reimbursement for the rental and leasing costs of charter schools in low-income areas when these schools are unable to secure public or other facilities. Charter schools that occupy school district or county office facilities or that are provided with facilities by their authorizing authority are not eligible for the program. In order to be eligible, charter schools are must meet one of the following requirements:

- The charter school is located within the attendance area of an elementary school in which at least 70 percent of the students qualify for free or reduced-priced lunches; or
- At least 70 percent of the students served at the charter school are eligible for free or reduced-priced lunches.

In meeting these requirements, eligible charter schools may not count student enrollment, as measured by average daily attendance (ADA), generated through non-classroom based instruction.

Program Growth: When the program began in 2001-02, a total of 95 charter schools statewide were eligible for the program, reflecting total student ADA of 10,930. According to the Department of Education, charter school enrollments are increasing at approximately 15 percent a year, so the number of charter schools and students eligible for facility grants will continue to grow in the future. The growth rate between 2005-06 and 2006-07 is estimated at 16.8 percent.

Program Funding: While funding for the program is subject to annual budget act appropriations, SB 740 authorizes eligible charter schools to receive \$750 per student ADA or 75 percent of annual their annual facility rental or leasing costs, whichever is lower. If funds appropriated through the budget act are not sufficient to cover these authorized levels, funds are pro-rated to charter schools to reflect available funds.

According to the Department of Education, eligible charter school facility grant reimbursements are estimated at approximately \$16.3 million in 2005-06, the latest data available. The \$9.0 million appropriated in the 2006-07 budget, as pro-rated to cover 2005-06 costs, provides funding for approximately 55 percent of eligible charter school facility reimbursement need.

Funding History: SB 740 contained intent language that the Charter School Facility

Grant program be funded at the level of \$10 million a year for the 2001-02, 2002-03, and 2003-04 years, which translates to a total of \$30 million. Funds for the program were first appropriated in 2001-02 at the \$10 million level, but were later eliminated as a part of mid-year budget reductions since the program was going to run on a reimbursement basis and funds were not needed until 2002-03.

The program continues to be forward funded, so that budget year funds pay for current year expenditures. A total of \$43.4 million has been appropriated for the program over the last five years, although only \$38.7 million has actually been expended for the program due to the reversion of \$4.7 million in 2002-03 funds.

Charter School Facility Grant Program * (In Millions)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	TOTAL
Previous Appropriations	\$10.0**	\$7.7	\$7.7	\$9.0	\$9.0	--	\$43.4
Previous Funds Expended	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	--	\$38.7
Governor's Budget: Proposed Appropriations						\$20.0 (06-07 costs) \$23.9 (07-08 costs)	\$43.9

* \$10 million appropriated in 2001-02 was later eliminated as a result of mid-year cuts and program reversions.

** \$4.7 million in unexpended 2002-03 funds were reverted in June 2004.

Governor's Budget Proposal. The 2006-07 budget provides \$9.0 million to continue funding the Charter School Facilities Grant Program. These funds cover 2005-06 facility reimbursements for charter schools. The Governor's 2007-08 budget proposes **\$20 million** to cover 2006-07 facility reimbursements and proposes an additional **\$23.9 million** to cover 2007-08 costs -- thereby moving away from a reimbursement-based system. The Governor proposes to continue the use of one-time, Proposition 98 Reversion Account funds for the program.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has identified several options for considering the Governor's 2007-08 budget proposal. These options are list below:

1. No funding. SB 740 stated legislative intent to provide \$10 million per year for three years -- 2001-02, 2002-03, and 2003-04. The state provided funding, on a reimbursement basis, for those three years as well as for 2004-05 and 2005-06. In total, the state has spent \$38.7 million on the program. The Legislature has met its expressed statutory obligation in SB 740.
2. Maintain funding at the existing level budgeted in 2006-07 (\$9 million), adjusted for charter school growth to equal approximately \$10.5 million. This would result in awards being pro-rated downward to approximately 50 to 55 percent of eligible charter school facility reimbursements.

3. Augment funding in 2007-08 by \$7.3 million to provide a total of \$16.3 million. At this level, eligible reimbursements would be fully funded per SB 740, which sets funding at \$750 per student or 75 percent of total facility expenditures submitted, whichever is less.

4. Augment funding in 2007-08 to stop the practice of forward funding the program. This would require changes in the payment schedule to either: (a) provide reimbursements at the end of each year or several times each year, or (b) make advance allocations at beginning of year that would be reconciled at the end of each year. No rationale has yet been given for such a change. Costs could be estimated for the budget year using current year charter school ADA figures, adjusted by the latest charter school growth figures.

COMMENTS: The intent of SB 740 was to provide three years of funding at \$10 million per year, or \$30 million, for the Charter School Facilities Grant program. The Governor proposes a fifth actual year of funding for the program in 2007-08, and adding another \$43.9 million to the \$38.7 million already available since the program began. While the Governor proposes to continue the practice of appropriating one-time funds from the Proposition 98 Reversion Account, the Administration views this as an ongoing program, reflecting a strong commitment to charter schools.

Staff recommends that if the Subcommittee considers whether the Charter Schools Facility Grant Program should be continued as an ongoing program, understanding there are significant out-year cost pressures to fully fund the program given increasing charter school enrollments.

If the Subcommittee supports continued funding, *staff recommends* that the Subcommittee provide funding in 2007-08 for 2006-07 costs only and maintain funding at approximately 50 percent of need, as currently provided. This would provide approximately \$10.5 million in 2007-08, instead of the \$20 million proposed by the Governor.

Staff recommends that the Subcommittee reject the Administration's proposal to provide \$23.9 million in advance funding for 2007-08 funding, given limited discretionary funding available in 2007-08. *Staff* is not opposed to making funding current, but suggests this conversion could be accomplished in future budget years when the LAO predicts growth in Proposition 98 funding.

OUTCOME: